

# **Village of Berrien Springs, Michigan**

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**Financial Report**  
**with Supplemental Information**  
**June 30, 2008**

# Village of Berrien Springs, Michigan

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**Plante & Moran, PLLC**  
Suite 120  
511 Renaissance Drive  
St. Joseph, MI 49085  
Tel: 269.982.8000  
Fax: 269.982.2800  
plantemoran.com

## Independent Auditor's Report

To the Village Council  
Village of Berrien Springs, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Village of Berrien Springs, Michigan (the "Village") as of and for the year ended June 30, 2008, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village of Berrien Springs, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Village of Berrien Springs, Michigan as of June 30, 2008 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the budgetary comparison schedules, as identified in the table of contents, are not required parts of the basic financial statements but are supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

To the Village Council  
Village of Berrien Springs, Michigan

In accordance with *Government Auditing Standards*, we have also issued a report under separate cover dated October 10, 2008 on our consideration of the Village's internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*Plante & Moran, PLLC*

October 10, 2008

# **Village of Berrien Springs, Michigan**

## **Management's Discussion and Analysis**

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Our discussion and analysis of the Village of Berrien Springs, Michigan's financial performance provides an overview of the Village's financial activities for the fiscal year ended June 30, 2008. Please read it in conjunction with the Village's financial statements.

### **Financial Highlights**

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2008:

- State-shared revenue, the General Fund's second largest revenue source, was decreased again this year. The Village management reacted by continuing to keep expenses at a minimum where possible.
- The Village continued its long-term investment in its wastewater treatment system. The new waste water treatment plant was placed in service in December 2007.
- The Downtown Revitalization Project began in April 2007. MDOT and the CDBG provided approximately \$544,000 in grant funding to assist with the project, which was completed during the 2007-2008 fiscal year. The total expenditures related to the project were \$1,024,500.
- The Fisher Court Watermain Improvements Project construction contract was completed during the 2007-2008 fiscal year. The total project cost was \$82,025.

### **Using this Annual Report**

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the Village as a whole and present a longer-term view of the Village's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the Village's operations in more detail than the government-wide financial statements by providing information about the Village's most significant funds.

# Village of Berrien Springs, Michigan

## Management's Discussion and Analysis (Continued)

### The Village as a Whole

The following table shows, in a condensed format, the net assets as of the current date and compared to the prior two fiscal years:

	Governmental Activities			Business-type Activities			Total		
	2008	2007	2006	2008	2007	2006	2008	2007	2006
<b>Assets</b>									
Current assets	\$ 4,338,269	\$ 3,687,719	\$ 3,370,332	\$ 1,345,102	\$ 1,187,116	\$ 577,753	\$ 5,683,371	\$ 4,874,835	\$ 3,948,085
Noncurrent assets	1,817,494	1,772,732	2,146,457	14,004,505	11,006,298	4,166,864	15,821,999	12,779,030	6,313,321
Total assets	6,155,763	5,460,451	5,516,789	15,349,607	12,193,414	4,744,617	21,505,370	17,653,865	10,261,406
<b>Liabilities</b>									
Current liabilities	129,914	50,387	73,236	334,298	1,389,332	438,442	464,212	1,439,719	511,678
Long-term liabilities	-	-	-	7,249,127	6,568,504	494,882	7,249,127	6,568,504	494,882
Total liabilities	129,914	50,387	73,236	7,583,425	7,957,836	933,324	7,713,339	8,008,223	1,006,560
<b>Net Assets</b>									
Invested in capital assets -									
Net of related debt	1,817,494	1,772,732	1,619,582	6,645,000	4,358,280	3,640,448	8,462,494	6,131,012	5,260,030
Restricted	1,231,810	1,054,547	1,063,471	63,268	61,294	59,321	1,295,078	1,115,841	1,122,792
Unrestricted	2,976,545	2,582,785	2,760,500	1,057,914	(183,996)	111,524	4,034,459	2,398,789	2,872,024
Total net assets	<u>\$ 6,025,849</u>	<u>\$ 5,410,064</u>	<u>\$ 5,443,553</u>	<u>\$ 7,766,182</u>	<u>\$ 4,235,578</u>	<u>\$ 3,811,293</u>	<u>\$ 13,792,031</u>	<u>\$ 9,645,642</u>	<u>\$ 9,254,846</u>

The Village's combined net assets increased 43 percent from a year ago - increasing from \$9,645,642 to \$13,792,031. As we look at the governmental activities separately from the business-type activities, we can see that governmental activities net assets increased 11.4 percent from \$5,410,064 to \$6,025,849, while business-type activities increased 83.4 percent from \$4,235,578 to \$7,766,182.

Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations - increased by \$393,760 for the governmental activities. This represents an increase of approximately 15 percent. The current level of unrestricted net assets for our governmental activities stands at \$2,976,545. This is within the targeted range set by the Village during its last budget process.

# Village of Berrien Springs, Michigan

## Management's Discussion and Analysis (Continued)

The following table shows the changes in the net assets during the current year and as compared to the prior two fiscal years:

	Governmental Activities			Business-type Activities			Total		
	2008	2007	2006	2008	2007	2006	2008	2007	2006
<b>Revenue</b>									
Program revenue:									
Charges for services	\$ 331,080	\$ 315,939	\$ 327,143	\$ 1,292,878	\$ 1,235,012	\$ 1,029,112	\$ 1,623,958	\$ 1,550,951	\$ 1,356,255
Operating grants and contributions	138,219	129,401	139,242	-	-	-	138,219	129,401	139,242
Capital grants and contributions	-	-	-	3,398,500	-	-	3,398,500	-	-
General revenue:									
Property taxes	632,902	595,284	558,249	-	-	-	632,902	595,284	558,249
State-shared revenue	174,620	178,696	180,784	-	-	-	174,620	178,696	180,784
Unrestricted investment earnings	186,840	127,074	79,070	30,395	55,760	30,799	217,235	182,834	109,869
Miscellaneous	75,688	66,800	66,866	-	-	-	75,688	66,800	66,866
Total revenue	1,539,349	1,413,194	1,351,354	4,721,773	1,290,772	1,059,911	6,261,122	2,703,966	2,411,265
<b>Program Expenses</b>									
General government	276,438	283,413	247,569	-	-	-	276,438	283,413	247,569
Public safety	101,509	241,276	154,288	-	-	-	101,509	241,276	154,288
Public works	350,876	246,116	189,049	-	-	-	350,876	246,116	189,049
Recreation and culture	194,741	149,003	151,954	-	-	-	194,741	149,003	151,954
Contributions	-	526,875	-	-	-	-	-	526,875	-
Water and sewer	-	-	-	1,191,169	866,491	726,571	1,191,169	866,491	726,571
Total program expenses	923,564	1,446,683	742,860	1,191,169	866,491	726,571	2,114,733	2,313,174	1,469,431
<b>Change in Net Assets</b>	<b>\$ 615,785</b>	<b>\$ (33,489)</b>	<b>\$ 608,494</b>	<b>\$ 3,530,604</b>	<b>\$ 424,281</b>	<b>\$ 333,340</b>	<b>\$ 4,146,389</b>	<b>\$ 390,792</b>	<b>\$ 941,834</b>

# **Village of Berrien Springs, Michigan**

## **Management's Discussion and Analysis (Continued)**

During the past fiscal year, governmental activities revenues increased from \$1,413,194 to \$1,539,349 or approximately 8.9 percent, while governmental program expenses decreased approximately \$500,000. Much of this decrease relates to the charge the Village took in 2007 to write-down the investment in the police joint venture.

Business-type activities revenue included grant proceeds of \$3,398,500. Excluding this source of revenue, revenues remained relatively stable with 2007, while expenses increased by approximately 37 percent.

### **Governmental Activities**

Property taxes increased slightly due to valuation increases. State-shared revenue decreased slightly, as the State of Michigan continued to cut revenue sharing. Investment earnings increased due to more active management of Village deposits and higher available rates.

### **Business-type Activities**

The Village's business-type activities consist of the Water and Sewer Fund. We provide water and sewer to residents through Village-owned and operated wells and the sewage treatment plant.

### **Water Operating Fund**

A water and sewer rate study was completed in January 2003. Using a proposed cost allocation between the customer, commodity, and demand charges, an annual increase of approximately 6.0 percent per year for five years was instituted. The Village will continue to monitor rates and expenses in the future.

### **Sewer Fund**

The water and sewer rate study completed in January 2003 recommended an average of 8 percent to 10 percent annual increase in sewer rates over a five-year time span, which was approved. Annual projected surpluses would build up the Sewer Fund's cash reserves, which had been depleted.

### **The Village's Funds**

Our analysis of the Village's major funds begins on page 11, following the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the Village as a whole. The Village Council creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The Village's major funds for 2008 include the General Fund, the Major and Local Streets Funds, and the Waste Water and Water Operating Funds.



# **Village of Berrien Springs, Michigan**

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## **Management's Discussion and Analysis (Continued)**

### **Budgetary Highlights**

Over the course of the year, the Village did amend the budget for the General, Major Streets, and Local Streets Funds. Full budget and amended budget to actual statements for these funds are included as pages 30 through 32 of this report.

### **Capital Asset and Debt Administration**

During the year, the Village issued debt in the amount of \$791,000 to assist in funding the construction of the new waste water treatment plant. This project was substantially complete as of June 30, 2008. The new treatment plant began operating in December 2007.

### **Economic Factors and Next Year's Budgets and Rates**

The Village's fiscal 2009 budget anticipates additional cuts in state-shared revenue. The Village also budgeted for the annual debt service of the debt related to the new waste water treatment plant.

The water and sewer rates remained stable during fiscal 2008. However, the Village continues to watch water and sewer revenue and expense trends for possible additional increases in the future.

### **Contacting the Village's Management**

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Village's finances and to show the Village's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the clerk's office.

# Village of Berrien Springs, Michigan

## Statement of Net Assets June 30, 2008

	Governmental Activities	Business-type Activities	Total
<b>Assets</b>			
Cash and cash equivalents (Note 3)	\$ 1,176,315	\$ 725,658	\$ 1,901,973
Investments (Note 3)	3,096,210	225,000	3,321,210
Customer accounts receivable - Net	17,474	326,552	344,026
Due from other governmental units	43,270	-	43,270
Internal balances	5,000	(5,000)	-
Prepaid costs and other assets	-	9,624	9,624
Restricted assets - Debt service	-	63,268	63,268
Capital assets - Net (Note 4):			
Assets subject to depreciation	1,528,853	13,704,675	15,233,528
Assets not subject to depreciation	288,641	299,830	588,471
Total assets	6,155,763	15,349,607	21,505,370
<b>Liabilities</b>			
Accounts payable	24,716	18,974	43,690
Accrued and other liabilities	99,566	204,946	304,512
Accrued employee benefits -			
Due within one year (Note 6)	5,632	-	5,632
Noncurrent liabilities (Note 6):			
Due within one year	-	110,378	110,378
Due in more than one year	-	7,249,127	7,249,127
Total liabilities	129,914	7,583,425	7,713,339
<b>Net Assets</b>			
Invested in capital assets - Net of related debt	1,817,494	6,645,000	8,462,494
Restricted for streets and highways	1,231,810	-	1,231,810
Restricted for debt service	-	63,268	63,268
Unrestricted	2,976,545	1,057,914	4,034,459
Total net assets	<u>\$ 6,025,849</u>	<u>\$ 7,766,182</u>	<u>\$ 13,792,031</u>

# Village of Berrien Springs, Michigan

Functions/Programs	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities:				
General government	\$ 276,438	\$ 100,000	\$ -	\$ -
Public safety	101,509	6,039	-	-
Public works	350,876	92,854	138,219	-
Recreation and culture	194,741	132,187	-	-
Total governmental activities	923,564	331,080	138,219	-
Business-type activities:				
Water	391,777	495,907	-	200,000
Sewer	799,392	796,971	-	3,198,500
Total business-type activities	1,191,169	1,292,878	-	3,398,500
Total primary government	<u>\$ 2,114,733</u>	<u>\$ 1,623,958</u>	<u>\$ 138,219</u>	<u>\$ 3,398,500</u>
General revenues:				
Property taxes				
State-shared revenues				
Unrestricted investment earnings				
Miscellaneous				
Total general revenues				
Change in Net Assets				
Net Assets - Beginning of year				
Net Assets - End of year				

**Statement of Activities**  
**Year Ended June 30, 2008**

<u>Net (Expense) Revenue and Changes in Net Assets</u>		
<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
\$ (176,438)	\$ -	\$ (176,438)
(95,470)	-	(95,470)
(119,803)	-	(119,803)
(62,554)	-	(62,554)
(454,265)	-	(454,265)
-	304,130	304,130
-	3,196,079	3,196,079
-	3,500,209	3,500,209
(454,265)	3,500,209	3,045,944
632,902	-	632,902
174,620	-	174,620
186,840	30,395	217,235
75,688	-	75,688
1,070,050	30,395	1,100,445
615,785	3,530,604	4,146,389
5,410,064	4,235,578	9,645,642
<b><u>\$ 6,025,849</u></b>	<b><u>\$ 7,766,182</u></b>	<b><u>\$ 13,792,031</u></b>

# Village of Berrien Springs, Michigan

## Governmental Funds Balance Sheet June 30, 2008

	General Fund	Major Streets Fund	Local Streets Fund	Total Governmental Funds
<b>Assets</b>				
Cash and investments	\$ 3,056,202	\$ 708,857	\$ 507,466	\$ 4,272,525
Receivables - Net	17,474	-	-	17,474
Due from other governmental units	23,353	13,600	6,317	43,270
Due from other funds	5,000	-	-	5,000
Total assets	<u>\$ 3,102,029</u>	<u>\$ 722,457</u>	<u>\$ 513,783</u>	<u>\$ 4,338,269</u>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Accounts payable	\$ 20,286	\$ 1,418	\$ 3,012	\$ 24,716
Deferred revenue	99,566	-	-	99,566
Total liabilities	119,852	1,418	3,012	124,282
<b>Fund Balances - Unreserved</b>				
Reported in:				
General Fund	2,757,177	-	-	2,757,177
Special Revenue Funds	-	721,039	510,771	1,231,810
Designated for future police expenditures	225,000	-	-	225,000
Total fund balances	<u>2,982,177</u>	<u>721,039</u>	<u>510,771</u>	<u>4,213,987</u>
Total liabilities and fund balances	<u>\$ 3,102,029</u>	<u>\$ 722,457</u>	<u>\$ 513,783</u>	
Amounts reported for governmental activities in the statement of net assets are different because:				
Capital assets used in governmental activities are not financial resources and are not reported in the funds				1,817,494
Long-term liabilities are not due and payable in the current period and are not reported in the funds				(5,632)
Net assets of governmental activities				<u>\$ 6,025,849</u>

# Village of Berrien Springs, Michigan

## Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2008

	General Fund	Major Streets Fund	Local Streets Fund	Total Governmental Funds
<b>Revenue</b>				
Property taxes	\$ 482,460	\$ -	\$ 150,442	\$ 632,902
State-shared revenues and grants	174,620	99,435	38,784	312,839
Licenses and permits	6,039	-	-	6,039
Charges for services	323,963	-	-	323,963
Fines and forfeitures	1,204	-	-	1,204
Interest and rentals	162,174	21,619	4,125	187,918
Other	82,976	184	276	83,436
Total revenue	1,233,436	121,238	193,627	1,548,301
<b>Expenditures</b>				
General government	326,741	-	-	326,741
Public safety	89,873	-	-	89,873
Public works	111,925	78,235	195,617	385,777
Recreation and culture	175,945	-	-	175,945
Total expenditures	704,484	78,235	195,617	978,336
<b>Excess (Deficiency) of Revenue Over Expenditures</b>	528,952	43,003	(1,990)	569,965
<b>Other Financing Sources (Uses)</b>				
Transfers in	-	57,950	78,300	136,250
Transfers out	(136,250)	-	-	(136,250)
Total other financing sources (uses)	(136,250)	57,950	78,300	-
<b>Net Change in Fund Balances</b>	392,702	100,953	76,310	569,965
<b>Fund Balances - Beginning of year</b>	2,589,475	620,086	434,461	3,644,022
<b>Fund Balances - End of year</b>	<u>\$ 2,982,177</u>	<u>\$ 721,039</u>	<u>\$ 510,771</u>	<u>\$ 4,213,987</u>

# Village of Berrien Springs, Michigan

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## **Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2008**

<b>Net Change in Fund Balances - Total Governmental Funds</b>	<b>\$</b>	<b>569,965</b>
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Current year capital additions	168,479
Current year allocation of depreciation	(123,396)
Current year net capital disposals	(321)

Decrease in accumulated employee vacation pay is recorded when earned in the statement of activities

1,058

<b>Change in Net Assets of Governmental Activities</b>	<b>\$</b>	<b><u>615,785</u></b>
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# Village of Berrien Springs, Michigan

## Proprietary Funds Statement of Net Assets June 30, 2008

	Waste Water Fund	Water Operating Fund	Total Enterprise Funds
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$ 495,986	\$ 229,672	\$ 725,658
Investments	-	225,000	225,000
Receivables - Net	209,093	117,459	326,552
Prepaid costs and other assets	-	9,624	9,624
Total current assets	705,079	581,755	1,286,834
Noncurrent assets:			
Restricted assets	-	63,268	63,268
Capital assets	11,936,740	2,067,765	14,004,505
Total noncurrent assets	11,936,740	2,131,033	14,067,773
Total assets	12,641,819	2,712,788	15,354,607
<b>Liabilities</b>			
Current liabilities:			
Accounts payable	15,594	3,380	18,974
Accrued and other liabilities	106,407	2,340	108,747
Customer deposits	-	96,199	96,199
Due to other funds	5,000	-	5,000
Current portion of long-term debt	77,689	32,689	110,378
Total current liabilities	204,690	134,608	339,298
Noncurrent liabilities - Long-term debt - Net of current portion	6,939,564	309,563	7,249,127
Total liabilities	7,144,254	444,171	7,588,425
<b>Net Assets</b>			
Investment in capital assets - Net of related debt	4,919,487	1,725,513	6,645,000
Restricted - Debt service	-	63,268	63,268
Unrestricted	578,078	479,836	1,057,914
Total net assets	<u>\$ 5,497,565</u>	<u>\$ 2,268,617</u>	<u>\$ 7,766,182</u>



# Village of Berrien Springs, Michigan

## Proprietary Funds Statement of Revenue, Expenses, and Changes in Fund Net Assets Year Ended June 30, 2008

	Waste Water Fund	Water Operating Fund	Total Enterprise Funds
<b>Operating Revenue</b>			
Sale of water	\$ -	\$ 465,363	\$ 465,363
Sewage disposal charges	770,550	-	770,550
Hydrant rental	-	15,000	15,000
Interest and penalty charges	7,727	6,782	14,509
Other charges for services	18,694	8,762	27,456
Total operating revenue	796,971	495,907	1,292,878
<b>Operating Expenses</b>			
Salaries	123,162	93,088	216,250
Fringe benefits	42,591	41,670	84,261
Utilities	47,596	6,038	53,634
Materials, supplies, and freight	42,103	36,524	78,627
Contractual services	10,534	16,683	27,217
Insurance	11,511	5,625	17,136
Repairs and maintenance	18,782	10,160	28,942
Depreciation	188,250	70,537	258,787
Administrative fees	50,000	50,000	100,000
Other	32,562	41,397	73,959
Total operating expenses	567,091	371,722	938,813
<b>Operating Income</b>	229,880	124,185	354,065
<b>Nonoperating Revenue (Expenses)</b>			
Investment income	12,483	17,912	30,395
Interest expense	(183,494)	(20,055)	(203,549)
Loss on disposal of assets	(48,807)	-	(48,807)
<b>Income - Before contributions</b>	10,062	122,042	132,104
<b>Capital Contributions - Capital grants</b>	3,198,500	200,000	3,398,500
<b>Change in Net Assets</b>	3,208,562	322,042	3,530,604
<b>Net Assets - Beginning of year</b>	2,289,003	1,946,575	4,235,578
<b>Net Assets - End of year</b>	<u>\$ 5,497,565</u>	<u>\$ 2,268,617</u>	<u>\$ 7,766,182</u>

# Village of Berrien Springs, Michigan

## Proprietary Funds Statement of Cash Flows Year Ended June 30, 2008

	Waste Water Fund	Water Operating Fund	Total Enterprise Funds
<b>Cash Flows from Operating Activities</b>			
Receipts from customers	\$ 784,931	\$ 513,637	\$ 1,298,568
Payments to suppliers	(207,897)	(410,578)	(618,475)
Payments to employees	(165,081)	(134,758)	(299,839)
Net cash provided by (used in) operating activities	411,953	(31,699)	380,254
<b>Cash Flows from Capital and Related Financing Activities</b>			
Purchase of capital assets	(3,940,270)	(216,443)	(4,156,713)
Proceeds from bond issuance	791,000	-	791,000
Principal and interest paid on capital debt	(232,346)	(47,744)	(280,090)
Grant proceeds	3,198,500	200,000	3,398,500
Internal activity - Payments to other funds	(91,649)	-	(91,649)
Net cash used in capital and related financing activities	(274,765)	(64,187)	(338,952)
<b>Cash Flows from Investing Activities</b>			
Interest received	12,483	17,912	30,395
Purchases of investments	-	(225,000)	(225,000)
Net cash provided by (used in) investing activities	12,483	(207,088)	(194,605)
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	149,671	(302,974)	(153,303)
<b>Cash and Cash Equivalents - Beginning of year</b>	346,315	595,914	942,229
<b>Cash and Cash Equivalents - End of year</b>	<u>\$ 495,986</u>	<u>\$ 292,940</u>	<u>\$ 788,926</u>
<b>Balance Sheet Classification of Cash and Cash Equivalents</b>			
Cash and investments	\$ 495,986	\$ 229,672	\$ 725,658
Restricted cash	-	63,268	63,268
Total cash and cash equivalents	<u>\$ 495,986</u>	<u>\$ 292,940</u>	<u>\$ 788,926</u>
<b>Reconciliation of Operating Income to Net Cash from Operating Activities</b>			
Operating income	\$ 229,880	\$ 124,185	\$ 354,065
Adjustments to reconcile operating income to net cash from operating activities:			
Depreciation	188,250	70,537	258,787
Changes in assets and liabilities:			
Receivables	(12,040)	17,400	5,360
Accounts payable	5,863	(240,496)	(234,633)
Accrued and other liabilities	-	(3,325)	(3,325)
Net cash provided by (used in) operating activities	<u>\$ 411,953</u>	<u>\$ (31,699)</u>	<u>\$ 380,254</u>

**Noncash Activities** - During the year, there were no significant noncash operating, capital, financing, or investing activities.

# **Village of Berrien Springs, Michigan**

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## **Notes to Financial Statements June 30, 2008**

### **Note 1 - Summary of Significant Accounting Policies**

The accounting policies of the Village of Berrien Springs, Michigan (the "Village") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Village of Berrien Springs, Michigan:

#### **Reporting Entity**

The Village of Berrien Springs, Michigan is governed by an elected seven-member council. In accordance with accounting principles generally accepted in the United States of America, there are no component units to be included in these financial statements.

#### **Jointly Governed Organizations**

The fire department of the Village, not a legally separate entity, is jointly operated with Oronoko Township (the "Township"). All fire expenditures are shared between the two units. The Village's share of capital assets is included in the governmental activities capital assets on the government-wide statement of net assets.

#### **Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

# Village of Berrien Springs, Michigan

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## Notes to Financial Statements June 30, 2008

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

#### **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary funds. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Village considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-shared revenue, state gas and weight tax revenue, district court fines, and interest associated with the current fiscal period. Conversely, if applicable, special assessments and federal grant reimbursements will be collected after the period of availability, receivables have been recorded for these, along with a "deferred revenue" liability.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The Village reports the following major governmental funds:

**General Fund** - The General Fund is the Village's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

**Major Streets Fund** - The Major Streets Fund accounts for the resources of state gas and weight tax revenues that are restricted for use on major streets.

**Local Streets Fund** - The Local Streets Fund accounts for the resources of state gas and weight tax revenues that are restricted for use on local streets.

# Village of Berrien Springs, Michigan

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## Notes to Financial Statements June 30, 2008

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

The Village reports the following major proprietary funds:

**Waste Water Fund** - The Waste Water Fund accounts for the activities of the sewage collection system.

**Water Operating Fund** - The Water Operating Fund accounts for the activities of the water distribution system.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The Village has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the Village's water/waste water function and various other functions of the Village. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. The Water and Waste Water Funds also recognize the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

# Village of Berrien Springs, Michigan

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## Notes to Financial Statements June 30, 2008

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

#### **Property Tax Revenue**

Property taxes are levied on each July 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on September 16, at which time penalties and interest are assessed.

The 2007 taxable valuation of the Village totaled approximately \$45.2 million, on which taxes levied consisted of 10.4306 mills for operating purposes and 3.4539 mills for street repair and maintenance. This resulted in approximately \$475,000 for operating and \$155,000 for street repair and maintenance. These amounts are recognized in the respective General and Special Revenue Funds financial statements as tax revenue.

#### **Assets, Liabilities, and Net Assets or Equity**

**Bank Deposits and Investments** - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments consist of certificates of deposits and are stated at fair value. Pooled investment income from the General Fund, Special Revenue Funds, and Enterprise Funds is generally allocated to each fund using a weighted average.

**Receivables and Payables** - In general, outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

**Prepaid Items** - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

**Restricted Assets** - The revenue bonds of the Enterprise Funds require amounts to be set aside for debt service principal and interest, operations and maintenance, and a bond reserve. These amounts have been classified as restricted assets.

**Capital Assets** - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the Village as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

# Village of Berrien Springs, Michigan

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## Notes to Financial Statements June 30, 2008

### Note 1 - Summary of Significant Accounting Policies (Continued)

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Roads and sidewalks	7 to 25 years
Water and sewer distribution systems	6 to 40 years
Buildings and building improvements	10 to 40 years
Vehicles	5 to 15 years
Office furnishings, machinery, and equipment	5 to 10 years

**Long-term Obligations** - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets.

**Fund Equity** - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

# Village of Berrien Springs, Michigan

## Notes to Financial Statements June 30, 2008

### Note 2 - Stewardship, Compliance, and Accountability

**Construction Code Fees** - The Village oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The Village charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative surplus or shortfall generated since January 1, 2000 is as follows:

Shortfall at July 1, 2007	\$ (55,777)
Current year building permit revenue	5,890
Related expenses - Direct costs	<u>(12,861)</u>
Shortfall at June 30, 2008	<u>\$ (62,748)</u>

### Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. A local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Village has designated five financial institutions for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in instruments allowed by Public Act 20. The Village's deposits and investment policies are in accordance with statutory authority.



# Village of Berrien Springs, Michigan

## Notes to Financial Statements June 30, 2008

### Note 3 - Deposits and Investments (Continued)

The Village's cash and investments are subject to custodial credit risk, which is examined in more detail below:

**Custodial Credit Risk of Bank Deposits** - Custodial credit risk is the risk that in the event of a financial institution failure, the Village's deposits may not be returned to it. The Village does not have a deposit policy for custodial credit risk. At year end, the Village had approximately \$4.9 million of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The Village believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Village evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

### Note 4 - Capital Assets

Capital asset activity of the Village's governmental and business-type activities was as follows:

	Balance July 1, 2007	Additions	Disposals and Adjustments	Balance June 30, 2008
<b>Governmental Activities</b>				
Capital assets not being depreciated:				
Land	\$ 288,641	\$ -	\$ -	\$ 288,641
Construction in progress	71,818	81,305	153,123	-
Subtotal	360,459	81,305	153,123	288,641
Capital assets being depreciated:				
Roads and sidewalks	809,983	153,123	-	963,106
Buildings and improvements	691,774	3,726	-	695,500
Vehicles	263,484	-	1,100	262,384
Office furnishings and equipment	623,284	83,448	8,000	698,732
Subtotal	2,388,525	240,297	9,100	2,619,722
Accumulated depreciation:				
Roads and sidewalks	123,177	35,051	-	158,228
Buildings and improvements	278,553	18,957	-	297,510
Vehicles	148,923	15,611	779	163,755
Office furnishings and equipment	425,599	53,777	8,000	471,376
Subtotal	976,252	123,396	8,779	1,090,869
Net capital assets being depreciated	1,412,273	116,901	321	1,528,853
Net capital assets	\$ 1,772,732	\$ 198,206	\$ 153,444	\$ 1,817,494

# Village of Berrien Springs, Michigan

## Notes to Financial Statements June 30, 2008

### Note 4 - Capital Assets (Continued)

Business-type Activities	Balance July 1, 2007	Additions	Disposals and Adjustments	Balance June 30, 2008
Capital assets not being depreciated:				
Land	\$ 299,830	\$ -	\$ -	\$ 299,830
Construction in progress	8,256,308	3,278,315	11,534,623	-
Subtotal	8,556,138	3,278,315	11,534,623	299,830
Capital assets being depreciated:				
Water and sewer distribution systems	4,450,178	11,534,623	1,113,716	14,871,085
Buildings and building improvements	122,471	-	50,000	172,471
Vehicles	136,489	-	-	136,489
Machinery and equipment	274,186	27,486	-	301,672
Subtotal	4,983,324	11,562,109	1,163,716	15,481,717
Accumulated depreciation:				
Water and sewer distribution systems	2,211,459	217,617	1,064,909	1,364,167
Buildings and building improvements	37,301	5,535	50,000	92,836
Vehicles	109,316	17,325	-	126,641
Machinery and equipment	175,088	18,310	-	193,398
Subtotal	2,533,164	258,787	1,114,909	1,777,042
Net capital assets being depreciated	2,450,160	11,303,322	48,807	13,704,675
Net capital assets	<u>\$ 11,006,298</u>	<u>\$ 14,581,637</u>	<u>\$ 11,583,430</u>	<u>\$ 14,004,505</u>

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:	
General government	\$ 29,924
Public safety	11,636
Public works	46,404
Recreation and culture	<u>35,432</u>
Total governmental activities	<u>\$ 123,396</u>
Business-type activities:	
Water	\$ 70,537
Sewer	<u>188,250</u>
Total business-type activities	<u>\$ 258,787</u>

# Village of Berrien Springs, Michigan

## Notes to Financial Statements June 30, 2008

### Note 5 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Waste Water Fund	\$ 5,000

This balance results from the General Fund making payments on reimbursable expenditures on behalf of the Waste Water Fund.

Interfund transfers reported in the fund financial statements are comprised of the following:

Fund Providing Resources	Fund Receiving Resources	Amount
General Fund	Major Streets Fund	\$ 57,950
General Fund	Local Streets Fund	78,300
Total		<u>\$ 136,250</u>

The transfers from the General Fund to the Major and Local Streets Funds represent the use of unrestricted resources to finance those programs, in accordance with budgetary authorizations.

### Note 6 - Long-term Debt

The Village issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the Village. County contractual agreements are also general obligations of the government. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

# Village of Berrien Springs, Michigan

## Notes to Financial Statements June 30, 2008

### Note 6 - Long-term Debt (Continued)

Long-term obligation activity can be summarized as follows:

	Interest Rate Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental Activities -</b>						
Accrued employee benefits	-	\$ 6,690	\$ -	\$ 1,058	\$ 5,632	\$ 5,632
<b>Business-type Activities</b>						
General obligation bonds - Water and sewer general obligation bonds:						
Amount of issue - \$330,614	4.70% -					
Maturing through 2020	5.65%	\$ 249,882	\$ -	\$ 15,377	\$ 234,505	\$ 15,378
Revenue bonds - Sewer revenue bonds:						
Series A Bond						
Amount of issue - \$4,947,000						
Maturing through 2046	4.38%	4,947,000	791,000	55,000	5,683,000	58,000
Series B Bond						
Amount of issue - \$1,229,000						
Maturing through 2046	4.38%	1,229,000	-	12,000	1,217,000	12,000
Revenue bonds - Water revenue bonds:						
Amount of issue - \$415,000	4.70% -					
Maturing through 2016	5.50%	245,000	-	20,000	225,000	25,000
Total business-type activities		\$ 6,670,882	\$ 791,000	\$ 102,377	\$ 7,359,505	\$ 110,378

Annual debt service requirements to maturity for the above bonds and note obligations are as follows:

	Business-type Activities		
	Principal	Interest	Total
2009	\$ 110,378	\$ 326,835	\$ 437,213
2010	113,378	321,672	435,050
2011	116,378	316,344	432,722
2012	120,378	310,844	431,222
2013	132,222	305,165	437,387
2014-2018	671,798	1,428,724	2,100,522
Thereafter	6,094,973	4,741,363	10,836,336
Total	\$ 7,359,505	\$ 7,750,947	\$ 15,110,452

# **Village of Berrien Springs, Michigan**

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## **Notes to Financial Statements June 30, 2008**

### **Note 6 - Long-term Debt (Continued)**

The Village has pledged substantially all revenue of the Water and Waste Water Fund, net of operating expenses, to repay the above water and sewer revenue bonds. Proceeds from the bonds provided financing for the construction of the waste water treatment plant and system improvements. The bonds are payable solely from the net revenues of the water and sewer system. The remaining principal and interest to be paid on the bonds is \$14,784,395. During the current year, net revenues of the system were \$354,065, compared to the annual debt requirements of \$290,549.

### **Note 7 - Risk Management**

The Village is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Village participates in the Michigan Municipal League risk pool for claims relating to all risks.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

### **Note 8 - Pension Plan**

The Village participates in the Michigan Municipal Employees' Retirement System, an agent multiple-employer defined benefit pension plan that covers all employees of the Village. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the system at 1134 Municipal Way, Lansing, MI 48917.

The obligation to contribute to and maintain the system for police and fire employees was established by negotiation with the Village's competitive bargaining unit and requires a contribution from the employees of .6 percent of gross wages. The obligation for general employees was adopted by the Village's council and requires a contribution of zero percent of gross wages.

# Village of Berrien Springs, Michigan

## Notes to Financial Statements June 30, 2008

### Note 8 - Pension Plan (Continued)

For the year ended June 30, 2008, the Village's annual pension cost of \$37,642 for the plan was equal to the Village's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2005, using the entry age actuarial cost method. Significant actuarial assumptions used include (a) an 8.0 percent investment rate of return, (b) projected salary increases of 4.5 percent per year compounded annually, attributable to inflation, (c) additional projected salary increases of 0.0 percent to 8.40 percent per year, depending on age, attributable to seniority/merit, and (d) no increase after retirement. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll.

	Fiscal Year Ended June 30		
	2006	2007	2008
Annual pension costs (APC)	\$ 26,198	\$ 29,738	\$ 37,642
Percentage of APC contributed	100	100	100
Net pension obligation	-	-	-

  

	Actuarial Valuation as of December 31		
	2005	2006	2007
Actuarial value of assets	\$ 2,261,624	\$ 2,408,797	\$ 2,594,696
Actuarial Accrued Liability (AAL)			
(entry age)	\$ 2,229,583	\$ 2,288,433	\$ 2,509,341
Overfunded AAL (UAAL)	\$ 32,041	\$ 120,364	\$ 85,355
Funded ratio	101.4%	105.3%	103.4%
Covered payroll	\$ 747,731	\$ 720,006	\$ 768,252
UAAL as a percentage of covered payroll	(4.28%)	(16.7%)	(11.1%)

## **Required Supplemental Information**

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# Village of Berrien Springs, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2008

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Revenue</b>				
Property taxes	\$ 471,110	\$ 471,110	\$ 482,460	\$ 11,350
State sources	150,000	150,000	174,620	24,620
Licenses and permits	5,000	5,000	6,039	1,039
Charges for services	291,500	291,500	323,963	32,463
Fines and forfeitures	1,000	1,000	1,204	204
Interest and rentals	50,600	50,600	162,174	111,574
Other	90,400	90,400	82,976	(7,424)
Total revenue	1,059,610	1,059,610	1,233,436	173,826
<b>Expenditures</b>				
General government:				
Village Council	114,855	114,855	88,903	25,952
Village president	7,600	7,600	6,297	1,303
Village clerk	59,960	59,960	58,848	1,112
Elections	3,025	3,025	2,053	972
Village treasurer	10,940	10,940	9,069	1,871
Administration	81,315	81,315	68,789	12,526
Village hall and grounds	32,235	32,235	25,987	6,248
Public safety:				
Building inspection/zoning administration	14,575	14,575	12,861	1,714
Ordinance enforcement	18,345	18,345	14,782	3,563
Public works	33,500	33,500	20,286	13,214
Recreation and culture:				
Shamrock Park	128,000	134,827	148,201	(13,374)
Grove, Wolf's Prairie, and Memorial Parks	4,275	4,275	6,399	(2,124)
Other:				
Community services	284,705	284,705	175,214	109,491
Capital improvements	100,000	100,000	66,795	33,205
Transfers to other funds	118,000	118,000	136,250	(18,250)
Total expenditures	1,011,330	1,018,157	840,734	177,423
<b>Excess of Revenue Over Expenditures</b>	48,280	41,453	392,702	351,249
<b>Fund Balance - Beginning of year</b>	2,589,475	2,589,475	2,589,475	-
<b>Fund Balance - End of year</b>	<u>\$ 2,637,755</u>	<u>\$ 2,630,928</u>	<u>\$ 2,982,177</u>	<u>\$ 351,249</u>



# Village of Berrien Springs, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - Major Special Revenue Funds Major Street Fund Year Ended June 30, 2008

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Revenue</b>				
State sources	\$ 100,657	\$ 100,657	\$ 99,435	\$ (1,222)
Interest income	20,575	20,575	21,619	1,044
Other	-	-	184	184
Transfer from other funds	<u>59,867</u>	<u>59,867</u>	<u>57,950</u>	<u>(1,917)</u>
Total revenue	181,099	181,099	179,188	(1,911)
<b>Expenditures</b>				
Routine street maintenance	67,166	66,912	56,624	10,288
Tree/Shrub maintenance	6,778	6,778	5,892	886
Traffic services	5,236	5,236	2,578	2,658
Winter maintenance	7,100	7,100	6,814	286
Administration	4,445	4,700	4,699	1
Drainage	<u>1,707</u>	<u>1,707</u>	<u>1,628</u>	<u>79</u>
Total expenditures	<u>92,432</u>	<u>92,433</u>	<u>78,235</u>	<u>14,198</u>
<b>Excess of Revenue Over Expenditures</b>	88,667	88,666	100,953	12,286
<b>Fund Balance - Beginning of year</b>	<u>620,086</u>	<u>620,086</u>	<u>620,086</u>	<u>-</u>
<b>Fund Balance - End of year</b>	<u><b>\$ 708,753</b></u>	<u><b>\$ 708,752</b></u>	<u><b>\$ 721,039</b></u>	<u><b>\$ 12,286</b></u>

# Village of Berrien Springs, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - Major Special Revenue Funds (Continued) Local Street Fund Year Ended June 30, 2008

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Revenue</b>				
Property taxes	\$ 155,999	\$ 155,999	\$ 150,442	\$ (5,557)
State sources	48,501	48,501	38,784	(9,717)
Interest income	13,004	13,004	4,125	(8,879)
Other	0	0	276	276
Transfer from other funds	84,932	84,932	78,300	(6,632)
Total revenue	302,436	302,436	271,927	(30,509)
<b>Expenditures</b>				
Routine street maintenance	94,827	94,549	86,288	8,261
Construction	290,175	290,175	81,304	208,871
Tree/Shrub maintenance	7,471	7,471	7,262	209
Traffic services	6,505	5,613	2,266	3,347
Winter maintenance	8,200	10,129	9,091	1,038
Administration	6,998	7,276	7,276	-
Drainage	2,292	2,292	2,130	162
Total expenditures	416,468	417,505	195,617	221,888
<b>Excess (Deficiency) of Expenditures Over Revenue</b>	(114,032)	(115,069)	76,310	191,379
<b>Fund Balance - Beginning of year</b>	434,461	434,461	434,461	-
<b>Fund Balance - End of year</b>	<u>\$ 320,429</u>	<u>\$ 319,392</u>	<u>\$ 510,771</u>	<u>\$ 191,379</u>

# Village of Berrien Springs, Michigan

## Note to Required Supplemental Information June 30, 2008

### Note - Budgetary Information

Annual budgets are prepared by the finance committee on a basis consistent with generally accepted accounting principles, except that the Village budgets operating transfers as revenues/expenditures instead of "other financing sources/uses." Budgets are adopted for the General Fund and all Special Revenue Funds by the Village Council. Subsequent amendments are approved by the Village Council.

The budget documents present information by fund, function, department, and line items. The legal level of budgetary control adopted by the governing body is the department level.

Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

**Excess of Expenditures Over Appropriations in Budgeted Funds** - The Village had significant expenditure budget variances for the year ended June 30, 2008 as follows:

	Budget	Actual
General Fund - Shamrock Park	\$ 134,827	\$ 148,201
General Fund - Transfers to other funds	118,000	136,250

# **Village of Berrien Springs, Michigan**

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**Federal Awards  
Supplemental Information  
June 30, 2008**

# **Village of Berrien Springs, Michigan**

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Plante & Moran, PLLC

Suite 120

511 Renaissance Drive

St. Joseph, MI 49085

Tel: 269.982.8000

Fax: 269.982.2800

plantemoran.com

## Independent Auditor's Report

To the Village Council  
Village of Berrien Springs, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund of the Village of Berrien Springs, Michigan as of and for the year ended June 30, 2008, which collectively comprise the Village of Berrien Springs, Michigan's basic financial statements, and have issued our report thereon dated October 10, 2008. Those basic financial statements are the responsibility of the management of the Village of Berrien Springs, Michigan. Our responsibility was to express opinions on those basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village of Berrien Springs, Michigan's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The information in this schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Plante & Moran, PLLC*

October 10, 2008

**Report on Internal Control Over Financial Reporting and on Compliance and  
Other Matters Based on an Audit of Financial Statements Performed in  
Accordance with *Government Auditing Standards***

To the Village Council  
Village of Berrien Springs, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund of the Village of Berrien Springs, Michigan as of and for the year ended June 30, 2008, which collectively comprise the Village of Berrien Springs, Michigan's basic financial statements, and have issued our report thereon dated October 10, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Village of Berrien Springs, Michigan's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village of Berrien Spring, Michigan's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Village of Berrien Springs, Michigan's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We believe that the deficiencies described in the accompanying schedule of findings and questioned costs as finding 2008-I constitutes a material weakness.

To the Village Council  
Village of Berrien Springs, Michigan

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Village of Berrien Springs, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Village of Berrien Springs, Michigan's response to the significant deficiency identified in our audit and described in the accompanying schedule of findings and questioned costs has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management and the Village Council and is not intended to be and should not be used by anyone other than these specified parties.

*Plante & Moran, PLLC*

October 10, 2008



## Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

To the Village Council  
Village of Berrien Springs, Michigan

### Compliance

We have audited the compliance of the Village of Berrien Springs, Michigan with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2008. The major federal programs of the Village of Berrien Springs, Michigan are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Village of Berrien Springs, Michigan's management. Our responsibility is to express an opinion on the Village of Berrien Springs, Michigan's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Village of Berrien Springs, Michigan's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Village of Berrien Springs, Michigan's compliance with those requirements. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as finding 2008-2.

In our opinion, the Village of Berrien Springs, Michigan complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

To the Village Council  
Village of Berrien Springs, Michigan

## **Internal Control Over Compliance**

The management of the Village of Berrien Springs, Michigan is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Village of Berrien Springs, Michigan's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal controls. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as Finding 2008-2 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We did not consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs to be a material weakness.

The Village of Berrien Springs, Michigan's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the Village of Berrien Springs, Michigan's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Village Council, and the federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Plante & Moran, PLLC*

October 10, 2008

# Village of Berrien Springs, Michigan

## Schedule of Expenditures of Federal Awards June 30, 2008

Federal Agency/Pass-through Agency Program Title	CFDA Number	Pass-through Entity Project/Grant Number	Award Amount	Prior Year Expenditures (Informational Only)	Federal Expenditures
<b>U.S. Department of Agriculture - Waste and Water</b>					
Disposal Systems for Rural Communities:					
Grant	10.760	N/A	\$ 3,350,000	\$ -	\$ 3,198,437
Loan			6,967,000	6,760,411	<u>206,589</u>
Total Waste Water Disposal Systems for Rural Communities					3,405,026
<b>U.S. Department of Housing and Urban Development -</b>					
Passed through the Michigan Strategic Fund - Michigan					
CDBG Grant	14.228	MSC 203020-EDIG	200,000		200,000
<b>Capitalization Grants for Drinking Water State Revolving Funds -</b>					
Wellhead Protect Setaside Program	66.468	MDEQ	3,600		<u>3,600</u>
Total federal awards					<u><b>\$ 3,608,626</b></u>

# Village of Berrien Springs, Michigan

## Notes to Schedule of Expenditures of Federal Awards Year Ended June 30, 2008

### Note 1 - Significant Accounting Policies

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Village of Berrien Springs, Michigan and is presented on the same basis of accounting as the basic financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

### Note 2 - Loans Outstanding

The Village had the following loan balances outstanding at June 30, 2008. Their loan balance is not included in the federal expenditures presented in the schedule.

Cluster/Program Title	CFDA Number	Amount Outstanding
Waste and Water Disposal Systems for Rural Communities	10.760	\$ 6,967,000

# Village of Berrien Springs, Michigan

## Schedule of Findings and Questioned Costs Year Ended June 30, 2008

### Section I - Summary of Auditor's Results

#### Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? ☒ Yes ☐ No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? ☐ Yes ☒ None reported

Noncompliance material to financial statements noted? ☐ Yes ☒ No

#### Federal Awards

Internal control over major program(s):

- Material weakness(es) identified? ☐ Yes ☒ No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? ☒ Yes ☐ None reported

Type of auditor's report issued on compliance for major program(s): Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? ☒ Yes ☐ No

Identification of major program(s):

CFDA Number(s)	Name of Federal Program or Cluster
----------------	------------------------------------

10.760	Waste and Water Disposal Systems for Rural Communities
--------	--

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? ☐ Yes ☒ No

# Village of Berrien Springs, Michigan

## Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2008

### Section II - Financial Statement Audit Findings

Reference Number	Findings
2008-I	<p><b>Finding Type</b> - Material Weakness</p> <p><b>Criteria</b> - Generally accepted accounting principles as they relate to governmental units require capital asset additions and bond proceeds for an enterprise fund to be recorded as an asset and a liability, respectively, rather than as an expense and a revenue.</p> <p><b>Condition</b> - The Village did not record significant adjustments related to the Enterprise Funds' bond issue, both on the revenue and expense side.</p> <p><b>Context</b> - Overall financial responsibility</p> <p><b>Cause</b> - The Village budgets on a cash basis; therefore, fixed asset additions and interest are expensed throughout the year and bond proceeds are recorded as revenue.</p> <p><b>Effect</b> - The related general ledger balances were not accurately recorded.</p> <p><b>Recommendation</b> - The Village should record the capital asset additions for the Enterprise Funds throughout the year, as well as capitalize interest payments on financing related to ongoing construction projects. Retainages related to construction projects still in progress at year end should also be evaluated and recorded as part of the year-end adjustments. Future bond proceeds should be recorded as a liability when received.</p> <p><b>Views of Responsible Officials and Planned Corrective Actions</b> - The Village plans to record bond proceeds as a liability, fixed asset additions and retainages payable as assets, as well as capitalized interest expense in future.</p>

# Village of Berrien Springs, Michigan

## Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2008

### Section III - Federal Program Audit Findings

Reference Number	Findings
2008-2	<p><b>Program Name</b> - Waste and Water Disposal Systems for Rural Communities (CFDA #10.760)</p> <p><b>Finding Type</b> - Noncompliance and significant deficiency</p> <p><b>Criteria</b> - Grant requirements indicate that the Village must maintain proper documentation to substantiate amounts included in the required financial reports.</p> <p><b>Condition</b> - During our testing of the Village's compliance, we noted that the Village could not produce adequate documentation to substantiate the revenue and expense balances included in the June 30, 2008 quarterly financial report which is generated by the general ledger system.</p> <p><b>Questioned Costs</b> - None</p> <p><b>Context</b> - The Village's general ledger system did not support the balances reported in the June 30, 2008 quarterly financial report at the time of testing.</p> <p><b>Cause and Effect</b> - By not maintaining this documentation, the Village cannot substantiate the amounts included in the quarterly financial report.</p> <p><b>Recommendation</b> - The Village must implement additional procedures to assure proper documents are retained to support the amounts reported.</p> <p><b>Views of Responsible Officials and Planned Corrective Actions</b> - The Village will ensure the general ledger support for the amounts reported is maintained in the future.</p>

# **Village of Berrien Springs, Michigan**

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**Report to the Village Council**

**June 30, 2008**





**Plante & Moran, PLLC**

Suite 120  
511 Renaissance Drive  
St. Joseph, MI 49085  
Tel: 269.982.8000  
Fax: 269.982.2800  
plantemoran.com

To the Village Council  
Village of Berrien Springs, Michigan

We have recently completed our audit of the basic financial statements of the Village of Berrien Springs, Michigan (the "Village") for the year ended June 30, 2008. In addition to our audit report, we are providing the following required audit communication, summary of unrecorded possible adjustments, recommendations, and informational comments which impact the Village:

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<b>Results of the Audit</b>	I-3
<b>Summary of Unrecorded Possible Adjustments</b>	4-8
<b>Informational and Legislative Matters</b>	9-16

We are grateful for the opportunity to be of service to the Village of Berrien Springs. Should you have any questions regarding the comments in this report, please do not hesitate to call.

*Plante & Moran, PLLC*

October 10, 2008

## Results of the Audit

October 10, 2008

To the Village Council  
Village of Berrien Springs, Michigan

We have audited the financial statements of the Village of Berrien Springs, Michigan (the "Village") for the year ended June 30, 2008 and have issued our report thereon dated October 10, 2008. Professional standards require that we provide you with the following information related to our audit.

### **Our Responsibility Under U.S. Generally Accepted Auditing Standards**

As stated in our engagement letter dated August 12, 2008, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. We are responsible for planning and performing the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of the Village of Berrien Springs, Michigan. Our consideration of internal control was solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters and our audit of the financial statements does not relieve you or management of your responsibilities.

Our audit of the Village of Berrien Springs, Michigan's financial statements has also been conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Under *Government Auditing Standards*, we have made some assessments of the Village of Berrien Springs, Michigan's compliance with certain provisions of laws, regulations, contracts, and grant agreements. While those assessments are not sufficient to identify all noncompliance with applicable laws, regulations, and contract provisions, we are required to communicate all noncompliance conditions that come to our attention. We have communicated those conditions in a separate letter dated October 10, 2008 regarding our consideration of the Village of Berrien Springs, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements.

We also are obligated to communicate certain matters related to our audit to those responsible for the governance of the Village of Berrien Springs, Michigan, including certain instances of error or fraud and significant deficiencies in internal control that we identify during our audit. In certain situations, *Government Auditing Standards* require disclosure of illegal acts to applicable government agencies. If such illegal acts were detected during our audit, we would be required to make disclosures regarding these acts to applicable government agencies. No such disclosures were required.

### **Planned Scope and Timing of the Audi**

We performed the audit according to the planned scope and timing previously communicated to you in our letter about planning matters dated September 8, 2008.

### **Significant Audit Findings**

#### ***Qualitative Aspects of Accounting Practices***

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Village of Berrien Springs, Michigan are described in Note I to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2008.

We noted no transactions entered into by the organization during the year for which there is a lack of authoritative guidance or consensus.

There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There are no sensitive estimates affecting the financial statements.

#### ***Difficulties Encountered in Performing the Audit***

We encountered no significant difficulties in dealing with management in performing and completing our audit.

#### ***Corrected and Uncorrected Misstatements***

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The attached schedules summarize uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. Material misstatements detected as a result of audit procedures were corrected by management, including recording capital asset additions for the Water and Sewer Funds and recording the debt issued in the current year for the waste water treatment plant.

***Disagreements with Management***

For the purpose of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

***Management's Representations***

We have requested certain representations from management that are included in the management representation letter dated October 10, 2008.

***Management's Consultations with Other Independent Accountants***

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

***Other Audit Findings or Issues***

In the normal course of our professional association with the Village, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the organization, and business plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the Village's auditors.

This information is intended solely for the use of the Village council and management of the Village of Berrien Springs, Michigan and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

**Plante & Moran, PLLC**

A handwritten signature in black ink, appearing to read "Kenley Penner", written in a cursive style.

Kenley G. Penner, CPA  
Partner

Client: Village of Berrien Springs  
Opinion Unit: Governmental Activities  
Y/E: 30-Jun-08

**SUMMARY OF UNRECORDED POSSIBLE ADJUSTMENTS**

Increases (Decreases)

Ref. #	Description of Misstatement	Assets	Liabilities	Net Assets	Revenue	Expenses
<b>Known Misstatements:</b>						
AI	To record Shamrock Park accounts payable		\$ 2,783			\$ 2,783
<b>Estimate Adjustments:</b>						
BI	None					
<b>Implied Adjustments:</b>						
CI	None	\$ -	-	\$ -	\$ -	-
	Combined effect	<u>\$ -</u>	<u>\$ 2,783</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,783</u>

**Client:** Village of Berrien Springs  
**Opinion Unit** Business-type Activities  
**Y/E:** 30-Jun-08

**SUMMARY OF UNRECORDED POSSIBLE ADJUSTMENTS**

Increases (Decreases)

Ref. #	Description of Misstatement	Assets	Liabilities	Net Assets	Revenue	Expenses
<b>Known Misstatements:</b>						
A1	To record accrued vacation		\$ 1,512			\$ 1,512
A2	To record additional water deposits		3,300			3,300
A-3	To record accrued interest payable		1,055			1,055
<b>Estimate Adjustments:</b>						
B1	None					
<b>Implied Adjustments:</b>						
C1	None					
		\$ -	-	\$ -	\$ -	-
	Combined effect	\$ -	\$ 5,867	\$ -	\$ -	\$ 5,867

Client: Village of Berrien Springs  
Opinion Unit: General Fund  
Y/E: 30-Jun-08

**SUMMARY OF UNRECORDED POSSIBLE ADJUSTMENTS**

Increases (Decreases)

Ref. #	Description of Misstatement	Assets	Liabilities	Fund Balance	Revenue	Expenditures
<b>Known Misstatements:</b>						
AI	To record Shamrock Park accounts payable		\$ 2,783			\$ 2,783
<b>Estimate Adjustments:</b>						
BI	None					
<b>Implied Adjustments:</b>						
CI	None	\$ -	-	\$ -	\$ -	-
	Combined effect	<u>\$ -</u>	<u>\$ 2,783</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,783</u>

Client: Village of Berrien Springs  
Opinion Unit: Water Fund  
Y/E: 30-Jun-08

**SUMMARY OF UNRECORDED POSSIBLE ADJUSTMENTS**

Increases (Decreases)

Ref. #	Description of Misstatement	Assets	Liabilities	Net Assets	Revenue	Expenses
<b>Known Misstatements:</b>						
A1	To record additional water deposits		\$ 3,300			\$ 3,300
A2	To record accrued interest payable		1,055			1,055
A3	To record accrued vacation		(178)			(178)
<b>Estimate Adjustments:</b>						
B1	None					
<b>Implied Adjustments:</b>						
C1	None					
		\$ -	-	\$ -	\$ -	-
	Combined effect	\$ -	\$ 4,177	\$ -	\$ -	\$ 4,177



To the Village Council  
Village of Berrien Springs, Michigan

October 10, 2008

Client: Village of Berrien Springs  
Opinion Unit: Waste Water Fund  
Y/E: 30-Jun-08

**SUMMARY OF UNRECORDED POSSIBLE ADJUSTMENTS**

		Increases (Decreases)				
Ref. #	Description of Misstatement	Assets	Liabilities	Net Assets	Revenue	Expenses
<b>Known Misstatements:</b>						
AI	To record accrued vacation		\$ 1,690			\$ 1,690
<b>Estimate Adjustments:</b>						
BI	None					
<b>Implied Adjustments:</b>						
CI	None	\$ -	-	\$ -	\$ -	-
	Combined effect	<u>\$ -</u>	<u>\$ 1,690</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,690</u>

## **Informational and Legislative Matters**

---

## Informational and Legislative

### Procurement Policy

While it appears the Village follows federal guidelines in obtaining bids on required items, the Village does not have a documented procurement policy. One of the requirements when working with federal grant projects is to have and follow an official policy. Such a policy would outline when competitive bids are required, procedures that will be followed to obtain and read bids, and guidelines for selecting and rejecting proposals. We recommend the Village draft and adopt a procurement policy.

### Revenue Sharing

The governor released her proposal of the State's fiscal year 2009 budget (for the year ended September 30, 2009) originally in February 2008. Over the course of budget deliberations in the spring and early summer, the Legislature further debated the level of the revenue-sharing funding, resulting in a compromise by the senate and house to fund revenue sharing equal to the projected fiscal year 2008 (fiscal year ending September 30, 2008) amounts, plus provide an increase of 2 percent of the statutory portion of revenue-sharing received in fiscal year 2007. This proposal was presented to the governor on July 25 and enacted in mid-August.

Here is a summary (in millions of dollars) of the revenue-sharing budget submitted to the Governor:

	FY 2007 Actual	FY 2008 Projected	FY 2009 Projected	% Change
Cities, villages, and townships:				
Constitutional	\$ 665,980	\$ 682,780	\$ 675,992	-0.99%
Statutory	404,920	392,050	406,933	3.80%
Total to CVTs	1,070,900	1,074,830	1,082,925	0.75%
Counties (statutory)	-	-	2,394	n/a
Total revenue sharing	<u>\$ 1,070,900</u>	<u>\$ 1,074,830</u>	<u>\$ 1,085,319</u>	<u>0.98%</u>

While the projection is for an overall increase of 0.75 percent (for cities, villages, and townships), the impact will not be evenly distributed between all local units. Remember, the 2 percent increase is for the statutory portion only - not the constitutional portion. The intent is for the total revenue sharing (constitutional plus statutory) in fiscal year 2009 to equal the total of constitutional and statutory revenue-sharing received in fiscal year 2008, plus an additional payment equal to 2 percent of the fiscal year 2007 statutory revenue-sharing received by the local unit. That may mean that for those units (primarily townships) that now receive no statutory revenue sharing, total revenue-sharing projected for fiscal year 2009 will be identical to the amounts received in fiscal year 2008. We are awaiting a final distribution table from the Michigan Department of Treasury.

## Informational and Legislative (Continued)

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The governor's proposed budget also included \$2.4 million to restore state revenue-sharing payments for the six qualifying counties that will exhaust their revenue-sharing reserve funds in fiscal year 2008/2009. As you may remember, a reserve fund was created for each county in 2005 when the State eliminated counties from the revenue-sharing program (remember, counties only receive statutory revenue sharing, not constitutional). In 2005, counties were required to phase in the early collection of winter property tax payments and to create a reserve fund with a portion of these monies. Counties have been drawing on their reserve funds to replace lost statutory revenue sharing. When the reserve fund is depleted, counties will then look to the State to re-enter the statutory portion of the revenue-sharing program. Prior to their elimination from the revenue-sharing program in 2005, counties statewide received approximately \$182 million annually.

It is encouraging that this budget funds revenue sharing at a higher level than last year. As counties have started to come back into the formula, the Legislature has budgeted this as an additional payment, rather than one that reduces distributions to the other local units of government. To a great extent, however, actual revenue-sharing distributions will depend on the stability of the State's budget, as well as the actual level of state tax collections. In addition, we need to remember that the statutory formula expired in 2007 and a new, permanent formula has not been enacted. Please remember to remind your state representatives of the importance of extending this legislation.

If the State were to eliminate the statutory portion of revenue sharing (as the constitutional portion cannot be modified without a change to the State's constitution), the Village has approximately \$47,150 at risk in its General Fund budget based on 2007 funding levels. In light of the current environment, we strongly encourage local governments to be conservative when budgeting or projecting the revenue-sharing line item.

### **Property Tax Developments**

The front page story several months ago is now old news. For many communities in Michigan, the challenging real estate market will negatively change the taxable value trends of recent years. Many communities saw modest declines in their 2008 taxable values, and if the downward trend in the housing market continues, the impact will be larger next year. How it will actually play out in each community and over what period of time remains to be seen. While each community will need to carefully determine the impact of the current environment on its budget, there are also several pieces of legislation in Lansing that will impact property taxes going forward. Examples include:

- House Bill 4215 (Public Act 96 of 2008) allows property owners to obtain two principal residence exemptions in certain situations. The bill was designed for situations where a homeowner has purchased a new home and is unable to sell the existing home. The dual exemption only applies if certain conditions are met (i.e., the property previously occupied is for sale, not occupied, not leased, or available for lease, etc.).

## Informational and Legislative (Continued)

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- A series of bills were introduced in March 2007 as part of a package to stimulate home sales (House Bills 4440, 4441, and 4442). The lead bill of that package, House Bill 4440, establishes an 18-month moratorium on the “pop-up” or “uncapping” of taxable value to state equalized value at the time of sale or transfer of a property. Property sales or transfers occurring in the time frame of the moratorium would continue to pay property taxes at the previous taxable value amount. The “pop-up” or “uncapping” of taxable value would be delayed until the property was sold or transferred in later years. House Bill 4440 actually passed the House in March 2007 and is currently in the Michigan Senate.
- Many property owners continue to struggle with the concept that their individual taxable values actually increased during a time that overall property values - and even their individual property values - have fallen. As we all have re-learned in recent months, it is a constitutional requirement that changed with Proposal A in 1994. It may be helpful to remember the principle behind Proposal A - its purpose was to disconnect taxable values from market value increases, and instead limit the growth in taxable values to the lesser of 5 percent or inflation, until that point that the property transfers ownership. Now that the market values are declining in many areas, Proposal A continues to stay disconnected, and allows the taxable value to increase by the lesser of 5 percent or inflation (up until the point that it re-connects with market values).

Fairly or not, this year, many property owners said it did not feel right when they saw their taxable value increase by inflation when market value did not. This has led to a discussion as to whether a third variable, called “change in market value,” needs to be added to the Proposal A formula. In what some are calling a “super cap,” the Proposal A formula to determine annual increases in taxable value (if property is not sold or transferred) would be the lesser of three components: inflation, change in market value, or 5 percent. Therefore, if the market value of the parcel was either flat or declining - even if the taxable value, of the particular parcel was less than state equalized value - there would be no annual increase. To date, a proposal to accomplish this change has not moved through the Legislature. A change of this nature would impact local government budgets.

- As part of the changes to the single business tax last year and the introduction of the Michigan business tax, changes were also made to the calculation of tax rates applicable to industrial and commercial personal property taxes. As advertised, industrial personal property taxpayers received a reduction of the school operating mills (up to 18 mills) and the 6 mill state education tax. Commercial personal property taxpayers received a reduction of up to 12 school operating mills. However, if your community has a school district with “hold harmless” school mills, you must add back any hold harmless millage prior to computing the total mills to be levied. This may generate questions from commercial and industrial taxpayers.

## Informational and Legislative (Continued)

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- A Michigan Supreme Court case has changed how local governments can treat public service improvements by developers. Leading up to the court case, as private property owners or developers installed public service improvements (i.e., such as street lights, water and sewer lines, etc.) there was normally an increase in their property tax assessment. The Michigan Supreme Court upheld a Court of Appeals ruling that the installation of public service improvements does not constitute a taxable addition.

### **Change in Investment Act**

Public Act 213 of 2007, adopted at the end of 2007 requires local governments to perform their investment reporting quarterly to the governing body. The investment of surplus monies by Michigan local governments is controlled by Public Act 20 of 1943. The Act previously required investment reporting annually. It is suggested that the required quarterly reports list investments by institution along with maturity dates and interest rates.

### **Recent Revisions to State Transportation Funding Program**

Current legislation modified Act 51 to allow local governments to transfer monies from their Major Street Fund (MSF) to their Local Street Fund (LSF) at a level of 50 percent of annual major street funding received. In addition, greater than 50 percent can be transferred. However, the amended law requires that certain conditions be met to allow for a transfer in excess of 50 percent including the adoption of an asset management process for the major and local street systems as well as a detailed resolution passed by the Village. It is important to note that major street monies transferred for use on local streets cannot be used for construction but may be used for preservation. Current legislation also includes a pilot program that would allow for the combination of the Major Street Fund and the Local Street Fund if certain conditions are met.

In the current instructions to the Act 51 reports, MDOT has stipulated that these transfers from the MSF to the LSF will not be allowed after December 31, 2008, except to the extent matched by local revenues expended by the city or village of the major street system. It is unclear whether the actual legislation that allows this transfer (MCL Section 247.663(12) of PA 51 of 1951, as amended) is set to expire at the end of the year. Local governmental units should, however, be aware of this potential sunset and take appropriate action prior to December 31, 2008 to make transfers that are allowable through this date.

### **FACT Act**

The Fair and Accurate Credit Transactions Act was passed in 2003, with final regulations published at the end of 2007. These FTC rules, and more specifically the Red Flag Rules encompassed in them, may be applicable to municipal utility systems. The rules, put in place as a measure to protect against identity theft, indicate that a “creditor” with a “covered account” must implement a written identify theft prevention program to detect, prevent, and mitigate identity theft in connection with the opening of a covered account or any existing covered account.

## Informational and Legislative (Continued)

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Under the rules, a creditor is defined very broadly, encompassing any entity that defers payment for goods and services, as defined under the Red Flag Rules. This most likely includes municipalities that “defer payments” by their utility customers when water, sewer, electric, gas, trash, and the like are sold to customers day-by-day but paid for at the end of the billing cycle.

The act would require written policies and procedures to be put in place to identify and follow up on red flags. Red flags, just as an example, would be the presentation by the customer of suspicious personal information that is inconsistent with external sources or suspicious documents provided for identification that appear to be alerted. The regulations appear to be flexible so that each government would have the ability to design an identity theft program that is tailored to its particular operation, given its size, technology currently utilized, and the perceived risk of identity theft in its community.

We encourage you to follow up with legal counsel if you believe this Act may apply to your governmental unit.

### Other Legislative Items

- As part of Michigan’s new Planning Enabling Act, many local governments will now be required to prepare an annual “capital improvements program.” This new requirement is effective September 1, 2008. According to Public Act 33 of 2008, a planning commission, after the adoption of a master plan, shall annually prepare a capital improvements program of public structures and improvements. The law does allow that if the planning commission is exempted from this requirement, the legislative body shall prepare and adopt a capital improvements program or delegate this responsibility to the administration of the local unit for the ultimate approval by the legislative body. The law provides that the capital improvement program report public structures and improvements that, in the community’s judgment, will be needed or desirable within the next six years. The law also requires that the public structures and improvements included in the capital improvements program be prioritized. Townships that do not either individually or jointly own or operate a water supply or sewage disposal system are exempt from this requirement. In general, Plante & Moran strongly encourages the development of a capital plan. While the law is restricted to “public structures and improvements,” we strongly encourage the inclusion of all capital assets - vehicles, machinery and equipment, office furnishing, etc. In addition, we feel the participation of the governing body (in addition to or instead of) the planning commission is good public policy.
- This same public act added several other requirements of planning commissions, including annual reporting by the planning commission to the legislative body along with the mandatory creation of a master plan.

## Informational and Legislative (Continued)

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- Multiple bills are pending in Lansing that would make changes to investment laws governing Michigan communities. Changes have been proposed to add different types of investments to what is commonly referred to as “Public Act 20” which governs the investment of surplus operating monies. Changes are also being proposed to the laws governing the investment of retirement monies.
- A bill is pending in the Michigan Legislature regarding retainages held by governmental units. Retainages are a common method used by local governments in procurement, particularly in the area of construction contracts. The law change focuses on reducing the retainage amount that a local government could require and stipulate the payment of interest on these monies among other provisions.
- Efforts continue in the wake of the *Bolt* case to provide a means for local units of government to engage in rate making to finance the cost of utility operations, particularly that of storm water. Senate Bill 1249 has been introduced to address the tests included in the *Bolt* decision on whether a charge is really a fee or a tax.
- At the Federal level, a 2005 law change continues to get more attention as its effective date approaches. As part of the Tax Increase Prevention and Reconciliation Act of 2005, a new mandate was introduced which will require any governmental entity spending more than \$100 million a year in goods and services to withhold 3 percent of government payments beginning in 2011. Governmental units subject to this requirement will also be subject to new reporting rules for applicable payments. Numerous groups - both public and private sector, including the U.S. Department of Defense - have expressed concerns on the cost and practicality of implementing this new mandate. A bill is pending in Congress to delay implementation by a year until January 2012.



## Informational and Legislative (Continued)

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### **PROPERTY ASSESSMENT CAP**

As you recall, Proposal A limits the growth in taxable value to the lesser of inflation or 5 percent. The inflation factor for this calculation is published by the State tax commission and is as follows:

2008	2.3%
2007	3.7%
2006	3.3%
2005	2.3%
2004	2.3%
2003	1.5%
2002	3.2%
2001	3.2%
2000	1.9%
1999	1.6%
1998	2.7%
1997	2.8%
1996	2.8%
1995	2.6%
1994	3.0%

Also, as you probably recall, the Headlee Amendment to the Michigan Constitution limits the amount of taxes that can be levied by the Village. In general terms, if growth on the Village's existing property tax base exceeds inflation for a particular year, the Headlee Amendment requires the Village to "roll back" its property tax rate to inflation. Prior to the passage of Proposal A in 1994, during years when the growth on the Village's existing property tax base was less than inflation, the Headlee Amendment allowed the Village to "roll up" its property tax rate and recover from years when the property tax rate was "rolled back." However, subsequent to the passage of Proposal A and as a result of changes made to the State's General Property Tax Act, the Village is no longer allowed to "roll up" its property tax rate in years when growth on its existing tax base is less than inflation.

### **Municipal Finance Act Revisions**

The Municipal Finance Act was amended several years ago. Communities are now required to submit a filing once a year with the Michigan Department of Treasury. The old 10-day "exemption from prior approval" process has been eliminated and is replaced with this qualification process. This filing will serve as a pre-approval for future debt issues. The current filing is due within six months of the Village's year end (December 31, 2008) and is good for one year thereafter.